

STATE OF THE STATE 2007
JANUARY 9, 2007
PIERRE, SOUTH DAKOTA
GOVERNOR M. MICHAEL ROUNDS

Thank you very much. Lieutenant Governor Dugaard, Mr. Speaker, members of the State Senate and State House of Representatives, my fellow public servants and the people of South Dakota, welcome to the 2007 legislative session.

Twenty-seven days ago, a former member of the House of Representatives and this Senate was struck down with an illness. All of us and all of South Dakota continue to have him in our thoughts and prayers every day. He works for all South Dakotans and we all want him to have every opportunity to return to work for us. We want Senator Tim Johnson and his wife, Barbara, and his family to know that all of South Dakota and all of us are unified in wanting our friend, Tim, to get well again.

That banner will be in my office today and tomorrow and there is plenty of white space on it so that all of us and anyone else who desires—it's in the Capitol today and tomorrow—can write a “get well” message to Tim on it and we will send it to him in Washington and hope it will help in his full recovery.

As all of the elected public servants in this room know, being elected is a great honor, a humbling experience and an inspiring challenge. So, I want to begin today by thanking the people of South Dakota for putting their trust in me and in all of the other elected officials here today. Thank you to the citizens of South Dakota.

I want to give also some special thanks to all of our returning legislators for their hard work in the past and welcome all of our new legislators. You are at the beginning of what will be a very unique and satisfying experience in serving the public. I want to work with all of you to make South Dakota a better place to live, work and raise a family.

When we come here to this place every January for 35 or 40 days, we may all have many different ideas on what should be done. But, we really only have one job. Our job is to create a better South Dakota.

We are going to debate and we're going to discuss information. We are going to vote, and we're going to vote for and against other peoples' ideas. That's part of the process—constructive discussion and debate. But, remember, in the end, our responsibility is to reach a consensus wherever and whenever that is possible so that we might really be able to create a better South Dakota. I'm looking forward to that, and I'm looking forward to working with all of you.

Let's begin by looking at what we are working on right now. Four years ago, the 2010 Initiative was created when hundreds of South Dakotans came to regional summits and with their ideas, opinions and suggestions started to shape the future of our state. Working together with the legislature and with thousands of South Dakotans, we are striving to reach our 2010 goals. Our gross state product has increased to an all-time high of over \$30 billion annually. Visitor spending has increased to over \$800 million in 2005, and that's also an all-time high! We have the visitation figures for 2006 but it will be ready to do in just a few weeks, but fiscal year tax collections related to tourism appear to be up about 7.5 percent.

For the year just completed, our capital investment numbers in manufacturing alone are the highest in our state's history. Four hundred and seventy-four new and expanding businesses have invested over \$407 million in construction and equipment.

Twenty-two companies received REDI loans in the past year. That will cause the creation of over 1,100 jobs. The current average wage of companies in the REDI loan fund portfolio is over \$14 per hour, and all of those companies provide group health insurance coverage.

Working together with new and expanding businesses, over 18,000 jobs have been created the last 4 years for our young people to stay here and for South Dakotans who want to come back home and raise their families.

We have completed nearly 6,000 first time home-buyer loans at reduced rates so that young people can buy a house and build up equity when they start their careers right here in South Dakota.

We have also launched DakotaRoots so that South Dakota companies can connect with South Dakotans who want to come back here to work and with South Dakotans who want to help bring part of their businesses back home.

With approval from the legislature and private fund-raising, we will have scholarship programs that will encourage over 3,000 college students to stay in South Dakota during the next school year.

We have also created five 2010 Research Centers of Excellence. The first four original research centers have already triggered a \$40 million economic impact for our state with an investment of about \$5.4 million. The legislature approved the Center for Bioprocessing Research and Development last year, and I am requesting a sixth research center in this year's budget. It is the Center of Excellence for Drought Tolerance Biotechnology at South Dakota State University.

The primary focus would be to identify genes associated with drought, temperature, disease resistance and crop quality. It will emphasize research that leads to emerging technologies in drought tolerant crops and partner with the private sectors.

With our business and corporate partners, we hope to commercialize our research and create even more knowledge jobs in these fields right here in South Dakota. To make that happen, I have requested a \$2.9 million emergency special appropriation in my budget proposal for Fiscal Year 2007.

Our new Drought Tolerance Biotechnology Center is as forward looking as was the first legislation to create and fund water systems in the first annual Omnibus Water bill.

But we are also working at the federal level to minimize the impacts of drought and to better target drought relief. As chairman of the Western Governors Association, I worked with other western governors to win congressional approval for the National Integrated Drought Information System, or NIDIS. The NIDIS system will improve drought monitoring and forecasting so that farmers, foresters, municipal water managers, barge operators and other water managers will have far better information to make decisions when we have water shortages. Although this new, excellent tool will give us the information we need, we must still work with our congressional delegation to fund targeted drought relief when it is needed. NIDIS will help us target resources, but we still need the resources from the Congress.

At the state level, we will continue operating the Drought Task Force to minimize drought impacts and help our farmers and ranchers.

Working together with past legislators from previous sessions and the private sector, we are creating tremendous growth in biofuels production. Currently, South Dakota has 12 operational ethanol plants. We also additionally have three new plants that have broken ground, three more in the planning stages, five have announced expansion plans and more are investigating expansion activities now. South Dakota is ranked first in the nation in farmer-owned plants, first in percentage of corn used and fourth in total ethanol production. South Dakota's ethanol plants produced more than 550 million gallons of fuel in 2006. That's a new record for our state. This year, in 2007, South Dakota will have the capacity to produce 843 million gallons of ethanol annually. All together the state has provided incentives to help boost ethanol production from 165 million gallons in 2002 to over one billion, one hundred million gallons by 2008.

At the state level, we are purchasing flex-fuel vehicles whenever it is practical. Currently, 38 percent of the state's fleet is flex-fuel vehicles. They can operate on 85 percent ethanol. Within the next 2 years, 57 percent of our fleet will be flex-fuel vehicles. It will be hard to go much higher than that until someone starts marking three-quarter-ton and higher trucks that can use flex fuels.

However, I'm very proud to say that South Dakota will also soon be home to the largest refinery in the region dedicated to biodiesel production.

In his 2006 state of the union address, President Bush announced increased funding for research on cutting-edge methods of producing ethanol and other biofuels from plant cellulose, including corn stalks, wood chips, switch grass and other materials with a goal to make this type of energy production practical and competitive within 6 years.

South Dakota is playing a leading role in this effort. In 2006, university researchers and industry partners from South Dakota and throughout the nation collaborated to develop our fifth 2010 Research Center, which I mentioned earlier. It is the Center for Bioprocessing Research and Development. South Dakota State University and the School of Mines are leading this \$192 million nationwide Sun Grant initiative to develop the bioeconomy. South Dakota based ethanol industry leaders Broin and Verasun have both submitted proposals to the Department of Energy for funding to build integrated biorefinery facilities to produce ethanol from cellulose and other biobased products. South Dakota has become a recognized leader in research and development in the area of ethanol and other biofuels, as well as the first state to be energy independent by producing more ethanol than petroleum consumed. As a result of these activities, South Dakota is

playing a key role in our nation's efforts to replace 25 percent of our petroleum needs with renewable energy sources by the year 2025.

We will have fantastic opportunities in the future with cellulosic ethanol production. Cellulosic ethanol conversion technology is the next generation for the ethanol industry. In the very near future, we will be producing ethanol from a variety of biomass products, such as wood chips, grass clippings, corn stalks and switchgrass—therefore adding even more value to our agriculture products.

We still have research to conduct in order to find the appropriate technology for decoding biomass decomposition, but we are fortunate that we have people in South Dakota who are involved in this research and development. Our ethanol industry leaders are charting the way, just like they did for traditional corn-based ethanol production. And the state has formed a partnership with the industry by creating the Center for Bioprocessing Research & Development at the South Dakota School of Mines and Technology, in conjunction with South Dakota State University. This center will focus on research that leads to new technologies for processing plant-derived materials in an effort to reduce the nation's dependence on foreign oil.

In addition to the incentives that helped create the 40-megawatt wind farm near Highmore, we are also moving forward in wind energy in several other ways. Last year, the legislature passed HB 1091 to help utilities more quickly recover the cost of building transmission lines which will help make more lines available for wind power. We have also funded the innovative Wind Resource Assessment network that collects local wind speed data and puts it in the public domain.

In September, PPM Energy and Excel Energy broke ground for the MinnDakota Wind Power project in Brookings County, South Dakota, and Lincoln County, Minnesota. It will create 200 construction jobs, 10-12 permanent jobs, income for farmers, several hundred thousand dollars in property taxes and 50 megawatts of wind power in South Dakota. When you combine that with our 40-megawatt wind farm near Highmore, South Dakota will already have enough wind generated electricity for 15 percent of all of our homes within our borders.

In August, Knight and Carver broke ground in Howard for its wind blade repair and manufacturing plant that will employ 46 full-time employees within 3 years.

Energy Development is one of our five target sectors (along with Medical, Biotech, Advanced Manufacturing and Firearms) that will create more jobs and business expansion opportunities.

With all of these energy efforts, we are working to create more fuels that are clean, diversified and domestic. Whether greenhouse gases are causing climate change isn't the question any more. The reality is that we need to be energy independent from the rest of the world, and using our own resources to create clean fuels can make us energy independent. We need to have a coordinated effort on the Farm Bill to address issues along with our congressional delegation's assistance and input from all of our various farm, ranch and conservation organizations.

The 2007 Farm Bill will be critical for us. It must treat our ag producers fairly. There must be a safety net for our farmers and ranchers when prices are depressed. We don't want to ever be dependent on foreign farmers for food like we are dependent on foreign governments for oil.

We must retain the conservation programs such as the Conservation Reserve Program in the Farm Bill. The conservation reserve program has become an important component of our management practices. It keeps our grasses available for emergency use in times of drought, it provides wildlife habitat and it could help in the development of cellulosic ethanol in the future if managed correctly.

The farm bill must also include reliable, science-based drought assistance, flexibility in production and an emphasis on renewable energy production, expansion into new domestic and world markets, rural development through loan guarantees and grants and enforcement of country of origin labeling.

Working together with our congressional delegation, the various farm groups and our farmers and ranchers, we can make that happen, and I'm looking forward to the challenge.

We have also created a unique program to increase the profitability of our own South Dakota Certified™ beef so that our farmers and ranchers can make more money. We have over 140 producers now participating, 13 processors and 4 beef marketing companies are now fully licensed, and 30 retail outlets are selling South Dakota Certified™ beef.

We also helped launch Dakota Provisions, an excellent value-added company that is employing 504 people and will be processing 3.9 million turkeys this year. That's over 156 million pounds of turkey. The importance here is that we are processing our commodities and other peoples' commodities and selling them at a higher value. Instead of selling our commodities at commodity prices to someone out-of-state, we are processing them and adding value to them and, therefore, keeping more of the profits for our people right here within our own borders. The plants being built are also adding more wealth to South Dakota and creating more jobs for South Dakotans.

Also, working together with the legislature, we have created a special program for families in need by reimbursing them for the sales tax they spend on food. And, we started a special risk pool to help people who have lost their health care coverage through no fault of their own. 689 people are being served by the risk pool today, and we hope to add more as soon as federal funds become available again. Another 479 were also served by the risk pool, but no longer need it because most of them have now found affordable insurance elsewhere.

We have also increased funding for necessary medical care for our children and our elderly when they were unable to care for themselves, and we have passed laws to bring more doctors, nurses and dentists to rural areas. Through the tuition reimbursement program, we've brought 11 family physicians, 4 physician assistants and nurse practitioners and three dentists to 15 different communities. This year, I'm proposing a special appropriation of \$250,315 for that program.

In the audience with us today we have a special guest who has made the choice to stay in one of our small towns because of this program. After graduating from The University of South Dakota School of Medicine and completing a residency program out-of-state, Dr. Jason Wickersham returned to South Dakota in August of 2004 to practice family medicine at Avera St. Benedict Health Center in Parkston. He will complete his 3-year commitment to the Physician Tuition Reimbursement Program in August 2007, at which time he will receive the state's portion of the reimbursement. Dr. Wickersham has decided to stay in Parkston and continue his medical practice there. Dr. Wickersham and Mrs. Lacey Wickersham, will you please stand and be recognized for your service? Please stand. Thank you for choosing South Dakota.

We are also moving forward in creating the world's best Deep Underground Science and Engineering Laboratory at the site of the Homestake Gold mine. Homestake is now one of two designated finalists for the site of the National Deep Underground Science and Engineering Laboratory. This \$500 million, 30-year project will create good, high-paying jobs and give our kids the opportunity to study cutting-edge science and engineering with the best scientists in the world—and they will be able to do it right here in the Black Hills of South Dakota.

On April 14, 2006, I signed the Property Donation Agreement with Homestake-Barrick, and the Homestake property was transferred to the Authority on May 12th. The Authority moved its offices to Lead later that month. In June, Mr. T. Denny Sanford of Sioux Falls announced his intention to make an extremely generous \$70 million gift to the Science and Technology Authority to create an interim laboratory at the 4,850-foot level, to help with construction of the deep laboratory at the 7,400-foot level and to build a world-class science education center.

In recognition of this enormously generous gift, the Authority is naming the laboratory the “Sanford Underground Science and Engineering Laboratory at Homestake.” While the competition is not yet over, Mr. Sanford's donation has helped tremendously with Homestake's chances to win the designation.

The next step in the process is the submission of a detailed, 250-page conceptual design report or CDR. That report was submitted today (January 9), and it is expected that the National Science Foundation will announce the winner in April of this year.

In order to further enhance Homestake's competitive position, the Authority has begun working on refurbishing buildings on the surface for use as office space for scientists and has commenced work on the refurbishing and recommissioning the Yates and Ross hoists—the first steps in re-entering the mine to make it ready for experiments. Most or all of this work will be paid for through the \$10 million U.S. Department of Housing and Urban Development grant obtained by Senator Johnson in 2002.

If Homestake is selected, the Sanford Underground Science and Engineering Laboratory could be hosting scientists as early as 2008, with funding of the deep laboratory at the 7,400-foot level beginning in the year 2010.

At this time, I would also like to announce that to further enhance our National Science Foundation application and university research throughout South Dakota, the Great Plains Education Foundation is donating \$8 million to connect our state universities, the state government system, to the Sanford Underground Science and Engineering Laboratory and to the National Broadband Research Network. The state will help with operating costs of \$1.7 million annually, but that won't be needed until after the 2008 session. That, in some peoples' nomenclature, is called Internet 3, or I3. This will be a dedicated ten gigabyte fiber optic network for the research and education communities in South Dakota, North Dakota, Montana and Idaho, and will serve as the connection for those states to the research centers in the rest of the United States and the world.

We've worked hard to create better relations with our Native American tribes in dozens of ways, such as passing new laws to better implement the Indian Child Welfare Act, helping fund needed water projects such as Mni Wiconi, training for law enforcement, tax collection agreements to help tribal governments fund needed services, scholarships for Native American students and providing over \$500,000 in economic development loans.

We are also helping the tribes with other economic development efforts. We are a partner with the tribes in acquiring \$50 million in New Market Tax Credits from the United States Treasury. This allocation will be used for projects such as grocery stores in Kyle and Rosebud, a telecommunications project and a grain elevator. We are also helping tribes with workforce development training programs for businesses like Lakota Express and Radiance Technologies. Oglala Lakota College is also receiving \$100,000 to help a residential construction program begin training young individuals who want to learn how to build entire homes in one location.

This year, I will be introducing the Indian Education Act. It will put into law some of the things we are already doing to show our commitment to Native American education. It will require cultural training for new teachers to prepare them to teach Indian students because over 12,000 of our 20,000 Native American students now attend public schools. It will also call for the inclusion of Native American culture, language and traditions in our existing curriculums.

We will also be putting an additional emphasis on improving the graduation rate of our Native American students. Currently, the state's overall graduation rate is 89 percent, but only about 66 percent of our Native American students graduate from high school. We're going to do more to increase that percentage.

We are also fighting the methamphetamine epidemic in several ways, and this is not something which is a South Dakota problem only. This epidemic is found throughout the United States. In cooperation with the legislature, we passed new laws on ephedrine and pseudoephedrine sales, anhydrous tank locks and child abuse. We also launched an education program last spring called “Face Facts: Meth Makes You Ugly.” That particular program is targeted to our school students.

I’ve personally spoken in 12 schools to approximately 7,500 students with Jeremy Buchholz, a fine young man who has turned his life around after being a manufacturer, a distributor and a user of meth. Jeremy has become a positive force in the lives of many young South Dakotans. He is in the gallery today with his girlfriend, Marcia Brodkorb. Please stand, Jeremy, so we can see you and thank you for everything you do for our young people. Jeremy, where are you at? There you are. Thank you. Jeremy tells the whole story to the young people in the school. He doesn’t cut anything out of it. Sometimes his stories aren’t pretty. But he connects with these young people. In every one of the schools we went to, we found young people hurting, we found young people looking for someone to make contact with—he has truly made a difference for young people within our state.

Meth is also a problem for many adults. In Fiscal Year 2006, 32 percent of our male inmates and 47 percent of our female inmates had a meth problem. We now have intensive meth treatment programs at both the men and women’s prisons, and we have an outpatient treatment program as an alternative to incarceration.

With funding and cooperation from the legislature, we’ve also implemented the new statewide sex offender registry. As of last week, 2,265 were registered. Failure to register is a felony, penalties for repeat offenders have been increased and safety zones have been created.

Now all of this hard work done by previous legislators and by the citizens of this state in working together on many different economic development projects and issues has made an impact. All of this hard work and this cooperative effort has caused South Dakota to be ranked as one of the “Best States” in many categories for “Business” and “Quality of Life”. Here are some of them: Most Livable States, High Quality of Healthcare, Economic Freedom Index, Best Business Climate, High Quality of Life, Excellent Technology in Schools, Low Crime Rate, Low Vacation Costs and Low Unemployment Insurance Rates, and we also have the lowest State Taxes Per Capita in the nation.

The work done by state employees and our agencies has also made South Dakota a better place to live, to work and to raise a family. Here are just a few examples. For the sixth consecutive year, the Division of Child Support has been recognized as the #1 program for performance in collecting child support of any state in America. Our Medicare Part D enrollment is one of the highest in the nation at 95 percent due to the Department of Social Services' efforts with many partners to cooperate in helping our senior citizens to sign up. South Dakota has been in the top ten states for the last 4 years in the Digital States Survey. For example, over 1,300 forms are now online for citizens' use and 84 percent of all of our transactions are done online. And, our public safety communications network is one of the best in the nation. In the last 4 years, our Department of Transportation has constructed or re-constructed 300 miles of interstate highways, 2,000 miles of non-interstate highways, and 35 miles of urban highways at a total cost of \$1.2 billion.

We have a fantastic group of state employees who work very hard for the taxpayers. Let me give you a few stats to prove it. If you adopt our budget, this year that we proposed in December, here's what the numbers will be for the last 13 years. In K-12 education state aid to local schools, the amount of state tax dollars going to local schools the last 13 years will be more than doubled from \$165 million to almost \$354 million. In funding the state's share of Medicaid for taking care of the medical needs of our poor, our sick and our elderly, the amount of state tax dollar spending will also be more than doubled from \$98 million 13 years ago to \$253 million. In funding our public universities and technical schools, the state tax dollars they will get will be increased by 72 percent from \$112 million 13 years ago to \$194 million this year. In funding for our nursing homes and state institutions for people we must take care of because they can't take care of themselves, that funding will be increased by 93 percent from \$65 million to \$127 million. In the funding for our prisons and court systems to keep people in prison who would do us harm if we set them free, that amount will be more than doubled from \$52 million to \$122 million over that same 13-year time period.

But, in all the rest of state government—the other eight departments, four bureaus, the legislature, the Governor's Office and the other constitutional officers—where many of these state employees work, that amount will be decreased by 2 percent over the last 13 years from \$93 million to \$91 million. I think that the primary reason for that is that our state employees became more and more efficient every year. We've done all of those things I've mentioned and much more with the cooperation, funding and support from the last four legislatures and thousands of South Dakotans.

My cabinet and I have also tried very hard to reach out and communicate frequently with the public we serve. In the past 4 years, we have held 17 Education Town Hall Meetings and 23 Capitals for a Day throughout South Dakota. In the last four regular legislative sessions and two special sessions, people have worked together to deliver good government to the people of this state. We are creating a better future for South Dakotans. But, we need to do more.

We are in good shape, but I believe we can always be better. To keep moving forward, I will be introducing and supporting several bills in addition to the ones I've already mentioned. The Risk Pool is doing a good job of helping people who have lost insurance through no fault of their own. But, what about the rest of the uninsured—especially young adults? A 2004 Department of Health survey indicates that young adults in the 19- to 34-year-old age group account for 33.9 percent of all of our uninsured. The current law requires dependent coverage of individuals who are enrolled as full-time students to the age of 24 years. This new bill would allow the continuation of coverage for these young adults until they are done with all of their schooling or the age of 30.

To help people more easily provide for themselves as they grow older, I will be introducing a bill to provide more incentives for people to purchase long-term care insurance. Nursing home care is very expensive. A new federal program called the "long term care partnership" allows for the preserving of assets on a dollar-for-dollar basis for each dollar of claims paid under a qualified long-term care insurance policy. By reducing the minimum coverage for nursing home insurance from 2 years to 1 year in our state, consumers will be able to purchase less expensive long-term care insurance and have more flexibility in deciding how much in assets they want to protect. That action will provide a dollar-for-dollar incentive to encourage people to buy long-term care insurance.

To encourage new power plants to use new technologies, I will also be introducing a bill to provide incentives for the Integrated Gasification Combined Cycle process, or IGCC. IGCC is a process that converts coal into an environmentally friendly natural gas-type fuel, called "synthesis gas" or simply "syngas". When used to fuel a combined gas turbine and steam turbine plant, known as a combined cycle system, coal-based syngas fuel produces electricity more efficiently and with lower emissions than traditional direct fire coal boilers. Frankly, we are still working on what incentives would be the most successful, but I will have legislation by the deadline later this month.

To provide for a long-needed upgrade to Custer State Park facilities, I will be introducing a bill to authorize the South Dakota Building Authority to provide for the construction, reconstruction, renovation and modernization of state park facilities and infrastructure. The revenue stream from the new 10-year concession contract at Custer State Park will be sufficient to retire the debt on a new bond issue earmarked to rectify these deficiencies that we would be correcting. Therefore, this bill will authorize the South Dakota Building Authority to issue revenue bonds up to \$11 million for improvements to the resort facilities and infrastructure at Custer State Park.

I will also be introducing a bill to increase the minimum wage in South Dakota. In 1997, I sponsored the bill that raised the minimum wage. It has not been raised since then. Over the last 3-year period, South Dakota's percentage increase in per capita personal income has been the highest in the nation. So, it's about time our lowest paid workers receive an increase too. Figures from a special study last year showed that raising the minimum wage to \$6 per hour from the current \$5.15 per hour would help 14,000 South Dakotans and cause lost jobs to 140 South Dakotans. I believe that those 140 people could have found jobs in our growing economy. I have asked for updated information based on the proposals being discussed by Congress and our President. We know they are talking about a "tiered" or "step" system. I will introduce a bill that will be a "tiered" system or a minimum of \$6 per hour prior to the bill introduction deadline. I don't believe that we should wait for Congress to act. Let's give our minimum wage workers their first increase in 10 years.

I will also be introducing a bill to revise our capital punishment statute concerning lethal injection. The bill removes references to specific drugs used for lethal injection execution. It authorizes that the injection will be "substance or substances" in lethal quantities. The substances and quantities of substances will be determined by the warden, subject to the approval of the secretary of the Department of Corrections.

To help our veterans, I will also be introducing a bill to provide for renovations at the Michael J. Fitzmaurice South Dakota Veterans' Home.

Although a bill won't be necessary, I want to also tell you about a special project to reduce cervical cancer in South Dakota by 70 percent. A new vaccine called Gardasil can prevent cervical cancer caused by the *human papilloma virus* (HPV), a virus that causes almost 70 percent of all cervical cancers. We are going to make it available for every South Dakota girl between the ages of 11 and 18. As soon as

the details are completed, we will be promoting this free vaccine so that as many girls as possible can be vaccinated.

Education has been given a very high priority by me and the past four legislatures. State aid to local schools is the only state funded issue that is given a mandatory, statutory funding increase every single year. Schools are already first in line, by law, ahead of the elderly, the poor, the disabled and children who don't have health care insurance.

In the last 4 years, state aid to local schools has increased by \$475.66 per student, which is \$126.33 more per student than the mandatory increase. So, both I and the legislatures have given more than the law requires. Because these ongoing increases in state aid that are over and above the guaranteed amount also go into the base for year-to-year state aid increases and accumulate, our local schools have actually received \$62 million more than the guaranteed amount since I became governor in 2003.

In addition to that increase in ongoing new funding, we have also given local schools another \$171.43 per student in "one-time" funding that they could spend on whatever they wanted to improve education.

I'm limited in what I can say today because about one-third of our local schools have chosen to support a lawsuit against the state. But, of course, the real defendants in this lawsuit are the taxpayers of South Dakota.

There are many other issues that can be discussed in education, but we must always come back to our one singular purpose—we must do what's best for our students. That should be our highest priority.

I'd like to point out some of the excellent things that are occurring in education today. To improve math and reading at the elementary level, we have implemented South Dakota Counts, a new statewide math initiative and the Reading First program. We are getting good results. For example, in the Reading First program, the percentage of kindergarten students considered at low risk for reading failure went from 44 percent in 2004 to 90 percent in 2006. At the same time, kindergarten students considered at high risk for reading failure went down from 16 percent to 1 percent. Those are significant achievements that directly impact students, and they are measurable.

We are also moving forward with the 2010 Education Initiative (2010E) which contains 51 separate initiatives broken down into three concepts. The first concept is **Starting Strong**, which includes a continuum of services for South Dakota's youngest learners so that there can be a solid foundation for future academic success.

To promote improvements in early learning so that students are really ready for school, we are mandating kindergarten, creating Early Learning Guidelines and developing assessment tools.

During the next 3 years, we will be working with the Sioux Falls School District on a pilot preschool project so that as more and more preschool is offered in South Dakota, we do it in the most cost-efficient and educationally-effective manner possible for any entity that wants to offer preschool. The University of South Dakota will evaluate the progress so that the best practices can be shared with the rest of the state.

Preschool is very important because more than 85 percent of a child's brain structure is formed by the age of five. Quality preschool makes a significant difference and increases school achievement and other quality of life factors. The High Scope/Perry Preschool Study showed that for every one dollar (\$1) spent on quality preschool, the community saves \$7 later in lower special education costs, retention, lower judicial costs and welfare.

As we learn from the Sioux Falls pilot, we will be expanding the pilot programs to other communities of varying sizes and differing resources.

The second 2010E concept is **Finishing Strong**. It provides opportunities that prepare all students for postsecondary education and success in today's highly competitive global economy. That's a huge challenge.

Finishing Strong includes the laptop initiative, boosting our high school graduation rate, increasing internships for students, increasing the use of advanced placement and dual credit courses, more rigorous graduation requirements, the virtual high school and several other components.

For example, we are moving forward with the South Dakota Classroom Connections laptop project. Twenty school districts were selected as pilot sites. Teachers received their laptops and intensive training last summer. There are 5,000 new laptops in the schools this year, and our goal is to double that number to 10,000 laptops next school year.

The results have already been excellent. Teachers have reported that students are more motivated in their studies, spend more time doing their homework and have access to more information than ever before. Teachers also report a dramatic increase in the amount of communication between teachers, parents and students.

We are also working to create the South Dakota Virtual High School. The Web site is developed and being tested. We have four providers in our state who are preparing 75 courses for the fall of 2007. A full high school curriculum should be available by the fall of 2008.

The final concept of the plan is **Staying Strong**. Goals in this area involve school funding, teacher recruitment and retention and educational outcomes for Native American students. It includes mentoring programs for new teachers, better support to teachers pursuing advanced degrees, alternative routes to certification, the first and second year teacher academy and some targeted Native American actions to solve special problems and challenges.

An example that we have is the 42 teachers in the Teach for America program who have made a 2-year commitment to teach in reservation schools. Six have already extended their stay to a third year. We also have 20 individuals in the Troops to Teachers program that have made a 3-year commitment to teach in our “high needs” schools. We also have 110 teachers in our Teacher Quality Enhancement program who are improving their teaching knowledge and methods.

All of these programs are funded from various sources, but they have one thing in common. They are all targeted. The money is directed toward a specific goal to achieve specific results. And, I believe that’s the kind of education funding increases that work the best for our students and for our teachers.

The end results so far have been very good for our students. In the Dakota Step Test for math, 59 percent of our students were proficient or advanced in 2003. But in 2006, that number has increased to 73 percent. In the Dakota Step Test for reading, 71 percent of our students were proficient or advanced in 2003. In 2006, that number has increased to 83 percent.

In comparison to all the other states, we are also doing well. In both reading and math for the fourth grade and eighth grade, our students are ahead of the national average. Our students are also ahead of the national averages for ACT scores for the last 5 years.

More and more South Dakota students need to go on to post-secondary education—colleges, universities, technical schools and other advanced training—because when they do that, we have the makings of an excellent workforce for current jobs in South Dakota and also for attracting more higher paying jobs at our state in the future.

I'm very happy to report that according to the Postsecondary Education Opportunity research report issued last July, South Dakota leads the nation in the percentage of high school graduates who enroll in post-secondary education the next fall (college and tech schools). The latest figures are for 2004 and our number is 68.8 percent. That's considerably better than the percentage for the entire United States, which is only 55.3 percent.

And, after they get to college, they are doing better than national averages as well. Last month, the College Assessment of Academic Proficiency Report was released. On average, South Dakota students exceeded national averages in all four areas of writing skills, mathematics, reading and science reasoning.

The percent of students needing remedial help has also decreased the last 2 years. That's great for them, but it is also great for economic development because as more and more of them graduate every year with higher level degrees, they will help us to grow our state's economy.

The success of education at all levels depends on many factors, such as parental interest, discipline, curriculum, teacher quality and a host of other societal issues. You have all been lobbied to send more money to local K-12 school districts. Almost all of you want to give more money to local schools. I understand. But, we have a problem.

I won't repeat the year-by-year numbers from my budget speech, but for the most recent 3 years of available numbers—fiscal years 2004, 2005 and 2006—the legislature gave local schools state aid increases of \$29.9 million, and in those same 3 years, schools put an additional \$31.4 million in their general fund cash reserves. We gave them more and they put that much, plus a little more, into cash reserves.

My point is that if you vote to give more money to local schools, I hope you make sure that the money will be targeted for improving learning or improving teachers' salaries. That's why the 2010E spending I do is all targeted to specific goals and results.

And, that's why I am again introducing a bill this year to raise teacher salaries through a compensation assistance program. I'm asking for \$4 million to be matched with \$2 million from participating school districts who want to increase their teachers' salaries. The salary increases must be targeted to accomplish certain instructional goals or to address market conditions, to be decided at the local level.

I am also introducing, once again, a bill so that a student may not leave school until they graduate or reach the age of 18. Students need to graduate in order to get better jobs and have a better quality of life for the rest of their lives. This change will also motivate the state and schools to provide better alternative schools and more educational opportunities for those young people who are now dropping out of school.

In your discussions about education during this session, you have a new valuable resource that was completed 6 weeks ago. The State Aid Study Task Force issued its report on November 15, 2006. The task force examined nine issues—sparsity, minimum school size, small school factor, consolidation incentives, enrollment calculations, capital outlay, fund balances, fund balance penalties and other revenue sources. This report has very useful data that you can consider in developing your education legislation.

One hundred years ago, the legislature was still meeting in a wood building just a few hundred feet from here. They even passed a law that year to expedite the construction of the new Capitol where we are right now.

In his last State of the State speech, Governor Samuel Elrod said he wanted higher wages for teachers and he was worried that there was too much “red tape” in the schools and that “cigarette smoking seems to be quite prevalent among school boys.”

Governor Elrod also proposed a new resident hunting license fee of \$1. He concluded that grain dealers were making too much money at the expense of farmers, and he complained that divorces were too easy to obtain in South Dakota. He also said he was looking forward to attending the 3rd annual State Fair because the first two had been so successful. And, he said he was quite pleased that South Dakota was gaining more railroads and that South Dakotans quote have never been so well fed and clothed, end quote.

Think for a minute about the South Dakota of 1907 and what our ancestors have done during the last 100 years. Back then, paved highways were only a dream—and to many people a silly and stupid dream at best. After all, nothing would ever replace the horse and who would want to travel any faster than a railroad train anyway?

But, our ancestors had a dream. They dreamed of having the freedom to get to other places faster. They dreamed of using new vehicles called trucks to carry more corn and wheat and cattle to market cheaper and faster. But, to do all that, they needed something better than dirt roads that often had ruts and washouts. They dreamed about solid, strong, paved roads. And, they made it happen. Today, we have 678 miles of interstate and 7,000 miles of other paved highways.

In the last century, when private companies refused to bring electricity and telephone service to the rural areas for farms and ranches, what did our ancestors do? They formed cooperatives and they made it happen themselves. Today, there are over 64,000 miles of rural electric poles and miles of wires bringing electricity to farms and ranches and small communities throughout our state.

And, recently, when farmers, ranchers and many thousands of people in small towns needed cleaner, better water for themselves and their livestock, what did they do? They joined together, worked with several legislatures over years and governors, they borrowed money and they raised fees on themselves to build dozens of rural water systems. Today, there are over 30,000 miles of water pipelines, most of them underground that provide excellent water to our farms, ranches and small towns.

Just think for a minute about all the tremendous accomplishments of your parents, grandparents and great grandparents in the last century. Their optimism, their hard work and their perseverance created the South Dakota that you and I enjoy today. They dared to dream big dreams—they dreamed of building impossible highways, taming the mighty Missouri River, bringing electricity and good water to every corner of the state and they dreamed of carving mountains.

All of this started at the beginning of the last century and those dreams came true throughout the century. We are now at the beginning of a new century—the 21st century.

This is a unique time in the history of the United States and the history of South Dakota. It is a time of new opportunities and new threats. It is a time of new technologies. It is a time of challenges to our closely held values. And, I believe it is also a time for renewal and new beginnings.

My goals for the next 4 years with the legislature are for collaboration, not polarization, for rewarding results, not programs and for solutions that transcend politics.

Several generations of South Dakotans have overcome enormous challenges and created wonderful opportunities these past 117 years. Now, it's our turn. It's our turn—yours and mine—to create a better South Dakota.

On September 15th and 16th, we honored our state's 28,000 Vietnam era veterans who bravely and dutifully served in Vietnam and during that time from 1961 to 1975. We also honored and remembered the 207 who did not come home.

Over 1,800 volunteers made that weekend one of the most special and meaningful events in our state's history. The responses we have received from our veterans and their families have been incredible and overwhelming. But, what we did for them is little compared to what our Vietnam era veterans and all of our veterans have done for us.

Everything we have today in terms of our freedoms and our prosperity, this prosperity that we enjoy, is the result of our veterans defending our freedoms and bringing freedom to millions of other individuals around the world. So, I want to end today with a special thank you to all of our veterans, our military and their families, including our own South Dakota National Guard.

Since 9/11, the South Dakota Army National Guard has mobilized more than 2,900 soldiers from their units to support the Global War on Terror at home and abroad. During the deployment peak, South Dakota had more than 1,500 soldiers in Iraq. More than two-thirds of the South Dakota Air National Guard's 1,000 members have actively supported the Global War on Terrorism at home and abroad. Currently, approximately 200 guardsmen remain on active duty. And, as always, our South Dakota National Guard men and women continue to provide support for our state and our nation during times of emergency and for homeland defense.

Ladies and gentlemen, will you please join me as I ask all of our veterans and all of our current members of the Armed Forces that have worn the uniform of the United States of America so proudly to please stand and be recognized. Veterans please stand and be recognized.

Thank you.